FCC Knowledge Podcast
Season 3 - Bonus Episode

BUSINESS PLANNING BONUS EPISODE – LET'S TALK ABOUT EQUITY

PODCAST TRANSCRIPT

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N: From AgExpert it's the FCC Knowledge Podcast, a show that features great conversations about the business of farming while guiding you down the pathway to transition.

JB: That's where I find people. They're looking for the solutions to unpack these issues and if they can start doing some small decisions together, then as they progress the bigger ones get easy and they get to a place where they get comfortable making a choice.

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N: Hello, and welcome to a special bonus episode of FCC Knowledge Podcast for Season 3. If you've been following along, you'll remember that in our sixth Episode in the series, Building a Business Plan, our very own business advisor, Joel Bokenfohr, role-played as a junior partner to Merle Good senior partner as they used the business plan to drive the farm transition discussion at their hypothetical operation, Bokengood Farms. This is something Merle and FCC's Annessa Good, who is also Merle's daughter, are currently working through in their own transition journey, so they personally know how tough it can be. Today's episode is an extension of that conversation. Joel, Annessa and Merle couldn't resist chatting a bit more, specifically about equity. When it comes right down to it, talking about equity is such a personal discussion that truly depends on the farm scenario and the values and goals of the business, and this is a discussion that FCC has every day with clients and their families across the country. Even in the hypothetical situations of Bokengood Farms, it was difficult for Joel and Merle to have these discussions, but it also became an opportunity to provide even more information for you, the listener. For this episode, Joel, Merle and Annessa will once again explore those hard discussions on the allocation of resources, especially to off-farm children. Let's jump right in with Joel to start us off.

JB: Some of our key goals we want to talk about the importance of understanding some ag realities. When you're talking about equity, the difference in cash versus equity, including non-farm children and their understanding, and really digging into why it's so complex to try to do these things. We've got lots of different points we're going to circle through. One that I always like to jump straight to is almost looking at the net worth statement. I know when I open these discussions up a lot, I've always benefitted from being able to pull up a net worth statement and say, okay, this at least gives us the base to put some numbers to think and talk a little bit about what problem are we trying to scope. Lots of parents don't want to solve these things and they don't want to chat about it and put it publicly, but what are we trying to solve, and pulling that balance sheet that we've talked about together. For us we're going to use a grain farm and follow that grain farm example. We put a small business asset sheet together. It's a farm with $7 million in assets, just under $2 million in debt. But if we're giving that all to the farm child, we're probably going to have some issues. If we're splitting it in two and dividing it half ways, it might not be viable for our farm. These are a lot of the issues that people have to think about. Merle, maybe you could recap our discussion on the OPCO and real estate company that we talked about in the first video?

MG: I think with a farm, we have to categorize what we own into three pots. Pot 1 is our operating assets. It's a grain farm, of course, it's grain, equipment, inventory, then our real estate business, which is the land in this case, and then our off-farm investment pot, our potential retirement income, Canada Pension, OAS, do we have stocks in the stock market. If you have those three bubbles, then you can focus on them in different times of our transition. The previous video was the operating plan, how to make that work. And then the next one is the real estate and then the off-farm investment decision. So, we talk about equity. The thing I always tell the families when I meet with them right off the bat – farming is an equity game. Every dollar you make gets plowed back into assets to create the cash flow. So, when we talk about transition on equity, I want to say it is two points. One, parents, you have to decide at a certain part of your career when you no longer take returns out of the farm as labour or management return, but rather redemption of equity. What does that mean in English? It means either the company re-buying back your preferred shares. It's either taking and having income out of the investments for retirement. Or the third part is selling land. Do you sell land to your company? Do you sell your land to the farm child? Or, in some cases, do you sell land to a third-party purchaser to meet your goals and objectives? That one is very hard to do. I understand that. I'm a farmer. But that's what equity means to me. So, in that discussion we'll talk about what we mean by this equity conversation of land values, the elephant in the room.

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JB: Annessa, you were coming in this originally, I think, to play the, quote/unquote, role of?

AG: Off-)farm.

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JB: You're a stronger personality than either one of us, right, to kind of stand your ground on stuff. So, we both look too scared to go to the table with you.

MG: You think you're scared.

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JB: Well, you've got to live it later.

MG: I know. That's what I'm scared about.

0:05:11.3

AG: Car ride home.

MG: Car ride home.

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JB: From all your discussions with off-farm kids too, I guess, what comes to the table for helping them understand as well?

AG: All of FCC's advisors we talk about it as a national team. Are off-farm children having a chance to be heard, be introduced to this topic of transition? In the industry, I think we're starting to have these conversations earlier and earlier, and so the exciting part of that is bringing those voices to the table. Joel, when you talk about sharing your net worth, if it's a conceptual example that you talk through with an advisor or if your family is at the stage where they share the net worth with the off-farm children as well, it really allows opportunities to see, oh, okay, the current debt load is supported by the current asset allocation. We hear a lot, we need to educate our off-farm kids. What does that mean? When we talk about fair versus equal, we're going to talk about that a lot today, it's not just dollars. Are we being fair to them with that knowledge? Are we being fair to them with acknowledging what they're going to say? So, today looking forward to digging in with a little bit more context. So, for example, right on the net worth, Joel, you talk about the debt obligations. Often, when I'm sitting with farm families, repurchase impacts come up. In your opinion, what does that mean? How can we support families to start this conversation?

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JB: I always go back to that financial tool. I think it's so powerful. It is stealing your words a little bit on, does everybody understand the ag realities we have. I always put it back to that financial statement. If you're coming back to the farm, you're looking for clarity because you're intuitively understanding that these numbers they're stretching out as assets increase in value, as the dollars that we use to generate our income are growing relative to what we can produce. I like to come back to it with a bit of a financial plan so that you've got that financial indicator and we highlight it. We went through a number of different scenarios in that first video. But I always look at it a little bit that if you've got your sales revenue and you're really looking at your margins and things like that. In our example, we're leveraging almost $8 million in assets to generate about $200,000 in net income back to the farm for living costs, about 40% of that whole pot of $2 million generation in revenue based on $8 million in assets. We have about 40% left to make sure we've got our equipment payments covered, that we've got our principal, interest, future borrowing ability covered, some land rent and living costs out of that, and making sure we've got some risk in case things fluctuate. You see a lot of that next gen struggling to say, how do we actually piece this together and I need clarity sooner rather than later. Putting it on paper helps everybody get to that understanding and helps to share it with the non-farm siblings to say, this is why things might not be completely equal to get here.

MB: I'm going to push back a little bit on this because if you show this to somebody who's got a salaried position in Red Deer and they see $8 million of net worth and you're saying you're struggling. Come on, man, what are you talking here? So, sometimes this idea of bringing out an actual statement of the parents, right, I want to come back maybe just push back to say, what you mentioned, maybe it's a conceptual balance sheet, right? So, you're not showing the actual numbers yet. Because once this comes out, this is law. This is your farm. So, I always talk about off-farm children and farm son or daughter who's farming. We're going to talk concepts today, not necessarily actual numbers. When we're talking to an off-farm child be careful, because once you start talking about ROI and EBITDA, they're going to go, huh. And I'm not saying they're ignorant. It's just that they're not in this space. And they're going to say, $8 million of asset and you tell me you can't afford to give me X amount to raise my kids. You're helping Joel raise his career. Why in the hell aren't you helping me pay for my kids? You've got to be careful. When we take these words of advice from a group of consultants like this, each family is different. Are the off-farm children well versed in financial management? Great. But if they're not, be careful about putting things out that are hardcore numbers rather than conceptual numbers. No problem hearing conceptual numbers, saying like, for example, if you want to buy a quarter section today, to Joel, what's your capital to gross revenue number? If you take $1 million quarter, if you gross $100,000, it's $10.00 of capital to $1.00 of income. Conceptually that hits home now. You've got to spend $1 million dollars to make that. Then you go back into living costs. Maybe it's not 10 to 1, it's 40 to 1. So, you can say, would you rather have a briefcase or would you rather have a 40 to 1 capital business to make a living?

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JB: Yeah, point well taken. I think every family is different and we start with those expectations early that you want to be careful how you set precedent a little bit when you have these discussions, or going to a place where no one is owed a farm and we're making choices as we go forward.

AG: When we're sitting at the tables, we're working with a lot of senior generation, they want to be more proactive, or in their words, be more open or do better than the secrecy or previous culture that agriculture sometimes has had with secrecy and things like that. And so, it is really finding that balance. What I really hit on is ages in stages. So, Joel, in your first video, you talk a lot about what's our family values and vision to the business plan. We're starting these conversations early depending on age and stage. You might be 35 years old, but if you've only been back on the farm two years, that's different than if you move back at 21. Once again, why, when we started out with this role play, we really struggled, because it is very dependent on each family and their own scenario. What we can really take working with this financial reality something I know we're all really passionate about is who is on your family farm transition team to support you. So, if you don't feel confident enough to work through some of these numbers or you want to benefit from that neutral third-party advice or insight, this is a great exercise to work with your accountant. And come back and say, okay, once we're working with our accountant to look at our financial reality, then we're coming back and saying, okay, how do we benchmark, right? FCC has a new benchmarking tool. There are certainly other organizations out there that have benchmarking. And again, that is another opportunity why I'm at the table today to bring that awareness to non-farm kids, how do we slow this conversation down? So, definitely an umbrella concept is that the fair market value of land is so far from the return or the productive value of land. If we say that statement so simply to an off-farm kid, what does that mean?

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JB: Your comments are spot on. When we get to that financial piece, you're trying to unpack the stress on people's mind a little bit. It's not just you struggling with this decision alone. It's all farms trying to figure this out. You touched on our asset values having increased relative to what we're capable of producing on that. That adds another layer of challenge onto to the succession planning.

AG: Huge.

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JB: I would argue, Merle, right, that over your career, it's probably getting more difficult.

MG: The discrepancy between what the assets are worth or what it can produce or used to be years ago, and it hasn't changed much. It's 2% on assets, right? You take your $8 million times 2% is $160,000. That's probably what's left over and you're all done. So, it hasn't changed. It's been better the last four years. And historically, what's interesting, back in the '80s when I first started, and if the son came home, the old joke was, do you like your farming son? No. Good, give him the farm. So, back then it was tough in the economic capacity. So, now there's been a lot of room. That's why succession is so powerful in the ag community is that there is room to come back and grow these businesses, right?

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JB: The other pieces that we see I think as stressors are farms to maintain their current size to keep up, there's a bit of challenge from the next gen, to say, we've got to get going and figure this out. Oftentimes a lot of farms are in a place where they can expand and they can pick things up. It's hard not to look over the fence a little bit and say, it seems like they've got it figured out, can we do it? And so, these things come up financially for everyone.

MG: Every generation thinks expansion can be acquired through debt capital. Let's go buy another quarter section for $1 million. Let's go buy the rental land for $1 million. So, sometimes I think based on this cycle where we're at, in the last 20 years the industry has faced nothing but historically low interest rates high commodity prices. It was a no brainer to expand on capital assets. The next risk is going to be, how do we actually do the management expansion. I know we're a little off topic here about equity, but that's a little bit going back. Are we going to focus on returns from the business or returns from the land or returns from the off-farm asset pot? Unless I feel security that my retirement's coming from the business, right? If I know I'm going to make my living in Canada Pension and OAS and stuff from there, then normally I'm going to leave my off-farm investment pot and try to be fair in this to my off-farm child. That's been the historical thing forever. The elephant in the room is that pot is this big and the land is this big. So, that's what we're going to discuss as we go forward.

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JB: Thanks for telling me 20 years ago land was such a good investment.

MG: I wish I had bought more too.

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JB: I think that labour and management piece is so critical these days too, that you want that management piece to be bring in. We talked about it in the first video. Ask yourself what you can do for the farm to improve your skill set. People coming back into the business are incredibly talented, I think, no matter who you are across the board, that they're bringing real skills in that need to be recognized as part of this too. There's a lot of stress that goes on with managing this business as you go forward. Is that worth equity that you're growing equity from mom and dad as well?

AG: When you're talking about the complexity or the size and scale, when I'm sitting down at farm tables I just take a moment. I'm like, okay, everybody breathe, let's let our shoulders drop. And having that recognition and awareness that the current senior generation are looking at transferring an operation that is much more complex, the corporation, the tax implications and all of that, than they went through when they took over from their parents. When we kind of take that moment to check in and have empathy for both generations. Come on, dad, hurry up, what's the plan, I've got to know, right? I can also take a moment to say, okay, it's not like they're doing what's been done before. This is the first generation going through this size and scale of complexity. With all our discussions about how do we be proactive, how do we learn from the prior generations, language I use all the time is figure out at home first. So, when you're talking about your financial implications, Joel, discussions not decisions, we need to figure out the financial implications of the family's transition plan before we can start talking about expanding to third party assets. Parents' retirement income, living income, whatever language makes you feel better, what percentage of that is coming from the farm. And then the allocation of the buckets that Dad talked to. And then certainly, are we budgeting for any capital purchases? Do mom and dad need to move to town prematurely for health concerns? Junior generation, do we need to build a residence for them? We all know that residences can put a lot of financial strain on an operation as well. And then lastly, what are the ramifications of their estate plan? That's the elephant in the room, fair versus equal. Joel, we looked at the net worth statement prior, so can you dive into that now a little bit about the implications of that?

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JB: In that example, we showed giving it all to one person, right? You see some people that support that with their business goals. That's what they choose. And the caution there is always right that if that's their choice, if you want to look at people's success on their own a little bit, I think. But I see some farms that go down that path where they're saying we need to leave the bulk of assets here because our goals are to support the farm going forward. And I say, well, you have other children. That might cause you some issues down the road. If it's not going to be equal, maybe we should explain why it's fair and at least hear that out. Or else, if we divide it purely in two, we go back to that financial one, and it's going to have significant implications to continuing the farm business. We see arrangements from the past too where that's happened and it's almost like we've put so much re-buy onto the next gen as they come in., they're set up to fail from the beginning. So, we've got to balance these two. And we are talking about generational wealth, is the other difference. That people bring this generational wealth in that a lot of sacrifice has gone into things historically where we sacrificed to build equity in the short term, we sacrificed to build it in the longer term.

MG: What I want to be put in on this equity thing is put it in categories. Heritage wealth is the wealth that families have created to the time the son or daughter comes home. So, the heritage wealth, that's divisible by how many kids you have, if you wish. That's the business that the heritage wealth that was created. The next level is the wealth that's created in the family farm with the second generation being there for the next 25 years. Who really owns that equity? Just because it's legally owned by the parents doesn't necessarily mean it's really rightfully theirs to distribute as they see fit. So, I think that conversation has to come forward. We talked about putting the equity into different pots, heritage equity, farm equity, off-farm investment wealth. Put those in different pots and decide how you divide it. So, I think for the off-farm kids they have to understand that even though you're not necessarily part of the company right now, really what I'm trying to get across to my parents is saying, have you ever heard of the word co-trustee, and are you not holding these assets really in trust for that next child, next generation. So, you're actually not transferring legal ownership through a trust, but you're actually saying to them, I'm going to hold this so you have to trust me that our plan that we were agreeing to will become yours eventually in ownership. So, that's what I'm trying to get across as value. Because I have off-farm kids saying to me, okay, you just told me you can't afford to give me nothing, right? But you're making $100,000 a year on the farm. You've got a half-ton truck to boot. You've got all the gas you can use.

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AG: All the perks.

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MG: All the perks. Your kids are in hockey. I can't afford to put mine in hockey. Where is this idea of being fair? Not only are you going to get the vast majority of wealth, but you're also getting income through your career that's above mine and my wife's income. So, how do we address that?

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AG: I'm sure you can speak to this more than me, but that is a pivot that wasn't when you talked about the '80s. To what you are speaking, almost is like good old sweat equity. The farm couldn't afford to pay you an income.

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MG: Larger grain farm.

AG: On a grain farm, exactly.

MG: Their sweat equity formula is really a deficit not a credit. They're getting paid more maybe in some ways through cash to live on, but also potential growth in the company through common shares. So, the off-farm kids are saying to me, well, yeah, but yeah, but you know. We can have all these conversations, but the yeah but is going to keep coming up.

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AG: That's just focusing on labour, right?

MG: The farm child is getting value in cash to spend on their living costs, plus they're getting in most cases returns to management and expertise and enthusiasm. Now, if they're not getting that, then the value formula is in a deficit position. Too many times people say, the second generation is, I'm not being paid enough. It's the first generation that come back and say, you're getting all this. And then, if I'm not getting all that, though, that's what I'm trying to get across. There's got to be more than the old way of thinking was, value is only hours of labour and it's not areas of management.

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JB: Bringing that back to it, I think there are ways that we would look at it and say, is there value that's happening that we're increasing beyond what happened now that we have two people in. Generally, we're excited and happy to work together that we tend to see a kick up in growth potential, right, as there are more bodies to make decisions. You tend to see that farm equity growing a little bit and some enthusiasm, to your point.

MG: When you say, what are your returns from the farm, it's $60,000. That's labour.

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JB: Yeah.

MG: So, then as an off-farm child you're saying, I'm making $80,000, man, I'm doing good. Now, if you want to make that extra $40,000, are you running a business? Do you want to put in the hours to be a manager, risk-taker on debt, you want to have all those? If you want to put all those things back, well, that's the other $40,000 that I've earned. So, that would be kind of a neat conversation as we're talking about, what's your take out of business? Well, it's $60,000 salary, and $40,000 management and risk. So, you explain that back to your off-farm sister or brother. You're saying, do you guys want to do that? I'm not putting those kinds of hours in or taking that kind of risk. My brother would never farm. Arlin would never come back to the farm because he can't handle the risk.

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AG: We're talking about a grain farm in this. There are some industries, right, where certainly there are tighter cash flows, so sweat equity is still a critical part of that compensation.

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JB: Like we always say, that's why it's so difficult for us to try to role play this, is that everybody's value system is going to be a little unique in that, right, so how you allocate that's up to you.

AG: And so, when we talk about buying out siblings when we were looking at the financial statements, this is definitely where we're always balancing the teeter-totter. So, the financial or tax plan balance with the family goals and what's unique to them, that's a huge part of this. What's financially feasible, but then working with our accountant, what's our tax plan, and then balancing that out. So, if we're talking about a buyout, there are lots of different scenarios in that, that we hope to highlight a bit today. We're not going to offer solutions but talking about some considerations. So, how does this impact the family relationship if there is a debt owing between the siblings? For 15, 20 years, what is that buyout? Because we know in agriculture, we need time. So, from the farming child's perspective, there's constant IOU. I've got to give the cheque to my off-farm sibling. And then from the off-farm child's perspective, it's saying, okay, what is my security? Who is my farming brother going to pay back first, a third-party institution or myself, and is that income really transforming my life? So, those are certainly some things to think about.

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JB: And I think, to your point, right, a lot of assets in that mix do go to people that aren't coming back to the farm. People are solving their own puzzles, so lots do come back. When you're the next gen coming in, the shift is trying to let them know what's expected so we can build it back into our financial plan, plan for how we're going to do disbursements, to redo those things, and how we agree. And relationship wise, how do I deliver the rent cheque or the buyout cheque to a sibling to make sure they understand where it's coming from?

MG: This faces back to the question I've asked around my career in 32 years. If I opened up a current will, what percent of Central Alberta farmers or grain farmers are leaving some of their land to off-farm children? It's been as high as 85% and hasn't changed in 25 years. So, to get to the elephant in the room, I think we have to realize that this land is going to off-farm children because of the wealth inside the land value. How much is that to discussion? So, if we say, yes, it's happening, then the next question comes back, let's not fight it, let's embrace it and let's discuss it and get to the objectives of what that transfer of equity is all about. And that gets back to a concept of, how about the debt? Well, if my parents transfer a quarter section to my off-farm brother and I am expected to buy that off him, what's it for? Is it for income or wealth? The trouble with all will planning I see, is land's going to an off-farm child when mom and dad are dead. That creates no sibling interaction. So, why don't we transfer this land and we can do it in different ways, controlled mortgages or whatever, but transfer the land to the off-farm child when they're 35 or whatever so they are part of the family farm. They grew up on that farm. Transfer them a quarter section, but then have some restrictions and some covenants. The restriction is the company gets to rent it while the parents are alive. Can you imagine, Joel, you taking a cheque to your brother who is off farm and say, here's your rent cheque. It may not be $20,000. It may be $10,000. But if the farm can't afford to reward land ownership, then how is it going to reward it when I die? So, what I want people to do is start proactively doing equity transfers. I like your point about being a referee, because you're saying, you want a part of the pot, it's heritage farm, you get part of that quarter but the business needs access. So, access versus ownership is a concept that I really want to stress in our discussion today. You don't own every acre on your farm. Forty percent of your land is rented. So, what's so wrong with one of your landlords being a relative, as long as what is the expectation? So, doing this stuff, you guys, when I was your age, it was here's the deal. If I gave a quarter section to my non-farm child and they sell it in five years, they're a great investor. Well, if the value of the farm is to hold patient capital, that's a word I want to come up with, is patient capital, we need to have an understanding that land is a patient capital asset. If it isn't, then realize it's an income asset.

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JB: That clarification gives everybody certainty, and I agree on your point, right? Knowing that ahead of time is going to set you up for success as a family long term. If we just put in the will and we don't tell anyone, it's going to be ...

MG: If you do that in the will, then it won't last. There won't be this understanding of what's happening.

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AG: When we were prepping, we all kind of put our head in our hands and said, we go in circles with this as families because it's tough decisions to make. But we wanted to highlight today, regardless of buyout or transferring farm assets to dividing between your children, in this brainstorming phase there are some critical questions that again, me representing the off-farm child's perspective. So, the first one, the big one, what happens if the farming successor quits farming? Generally, the plan we're creating with our team of advisors of what our family deems as fair is a great plan, however, what happens if the successor prematurely passes away from disease, disability, perhaps that larger chunk of assets is that now converted wealth to income through land fails or things like that. It's certainly difficult to assess. The example farm you guys used in your first video, there was a large percentage of rented land, which is certainly something in the Prairies we see. I'm having lots of conversations right now with farm families of what if we can't purchase that rented land, it's not financially feasible for us to come up, and/or we lose it? So, the second critical question, if we lose rented acres and our business is once again no longer viable, how does our fair versus equal division of assets play into that? And lastly, the one we wanted to share with you today is something both Joel and I will ask families we're working with, how many generations are you planning for, to the senior generation? So, again, completely dependent on each family. Some families we worked with they say I'm just planning to my children's level. Others will start to take into account that next generation of grandkids and cousins. So, again, often complexity of fair versus equal is, well, the farming child's children could potentially be multimillionaires in the future if they don't continue to farm. And obviously, the off-farm children will not have that same opportunity. We realize that we're highlighting these main issues, but something we talk about a lot again, we're broken records, but it's because we want to drive it home. If we're proactive planning, it's not as personal. If we wait to react to scenarios or ideas, then, of course, it does become personal. What we talk about in our meetings is the gift of choice. So, going back to, Joel, your comment of, what is my financial reality if I'm the farming child? Is there any opportunity for me to have some input or be heard from the off-farm child? And then allowing us as a sibling to have some choices in the parents' proposal, I think, allows us to have ownership of that plan as well. Joel, do you want to talk about, I love your word, mind monsters? Was that it?

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JB: Everyone goes off with their own story and makes up a fact pattern of what happened in this arrangement, right? And you start to see the monster build in your mind a little bit of, well, that's not really how it happened. You're putting it back out there. There was a story behind this, why we did this. We thought about the farm plan. We wanted to see this continue. As a parent, mom and dad felt this was a more fair solution or more equal solution. And starting to put those scenarios out there that as a family, we're doing our best to make small decisions at the start and then we get better at making bigger decisions as we go along on this fair and equal part. That's where I find people, they're looking for these solutions to unpack these issues. And if they can start doing some small decisions together, then as they progress, the bigger ones get easy and they get to a place where they get comfortable making a choice. But everybody understands what's happening and we're in a safe place to have that discussion, rather than I'm going home and I'm getting real angry because this didn't go the way I wanted.

MG: Let's challenge you guys, the second-generation farm son and an off-farm daughter. Basically, we just all discussed about the off-farm daughters and they're going to have a hard-time making a living maybe than you are, and then on and on and on. Let's do a real example that's going to face all of our clients. There is a quarter section for sale in your area for $1 million. Do we buy it or do we assist our off-farm daughter with transformational income today? What do you think? If we buy the quarter, it's $60,000 coming out of our pocket to buy the quarter. First of all, who is the quarter for? I'm 64 years old. The trouble is, a lot of successful generation my age they never give up wanting to expand. It's in our blood. The phrase says, we're the developers or the guys that started these things. We want to keep growing. But when you look back at the family goals rather than just the business goals, my questions always is, with this kind of land value, are we better off to spend $60,000 here on buying this quarter, where that in the will, you'll end up buying three quarters off her for $3 million? Or are we better off to say, let's have this hard discussion and if we don't buy this quarter and we've got $60,000 of extra revenue for my retirement and to help Annessa with her living costs for the next 20 years, maybe that's discussion we have to have. If I give you $25,000 a year out of the farm tax-free through my shareholder's loan, that's a huge impact on your family. You can educate your kids. You can buy your RESPs, get ahead in life. So, I'm helping you get ahead a lot quicker than maybe leaving you a quarter section in the will worth $1 million that you can't sell for 30 years because you've got to rent it to him for 30 years. I think we have to challenge our thinking with the way the economy is for off-farm people, like cost of housing and this kind of stuff, or are we to always look at the expansion of the business. We need to come back and look at what are we trying to accomplish in the next five years.

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JB: And that's why I wound up in a headlock last night, is we were discussing this, right? We had different opinions on that, and it came down to saying, okay, mom and dad, now which hat are you putting on? Are you saying as a family this is how we see it and how you want to perceive this for your children out of the business, and then knowing that ahead of time? This is where I always see them go bad, is that we're saying we can do both, and we can't do both, right?

MG: One thing I'm going to end off with is something that you and I did a lot of work with when you were with Alberta Agriculture, and I just wanted to bring this forward to the audience across Canada. Looking at co-ownership land lots, whether we have a land capital partnership where we're going back and saying maybe four of those 15 quarters go into a jointly owned land capital partnership where that Annessa owns it, you own it, if you had more than two siblings, two other daughters own it. And the deal is that's for long-term wealth, and it's going to have not a 5-year lease agreement to OPCO, maybe a 25-year rolling lease. This capital is not sold until the last Bokenfohr has farmed. So, that's called long-term patient capital. So, that idea what I come up when we worked in Alberta Ag was to come back and say, maybe we need to look at this long-term capital preservation where that no one gets to sell it but everyone gets to get their rent off it. So, you're getting your returns to your land wealth, but it's not sold, kind of like some of these trusts they have in the US where they have a 21-year limit. So, to me on larger farms, we're going to have to look at that. We're strictly going to solve that issue. If Joel doesn't farm 40 years from now and his kid sells out, well, there are five quarters worth $5 million that the family has still inherited as a land corporation, land capital partnership.

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AG: But we do have to look at things differently, because I think the elephant in the room of land values and quota or anything else, right, are continuing to be more complex.

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N: There are so many questions that no one can answer but you and your family. However, I hope Joel, Annessa and Merle gave you a bit more insight into this very difficult conversation. Bringing other professionals into the discussion is always an option moving forward, and that can be mediators, psychologists and anyone who could potentially make this conversation easier. Just like we've said in many of our past episodes, empathy and compassion will go a long way in ensuring everyone feels heard and valued on this journey, especially during these particularly difficult conversations that will have a huge impact on everyone's lives. If you want to review Joel and Merle's first conversation during Episode 6 or want to catch up on all our previous episodes in real time, check out the Pathway to Transition virtual event series listed in the show notes. All of the transition resources can also be found on our website at FCC.ca/Knowledge. Until next time, dream, grow, thrive. Just a reminder to like, follow or subscribe to our podcast on Google podcast, Apple podcast, Spotify or wherever you get your podcasts. We'd also love to hear from you. Feel free to drop us a line at podcast@fcc.ca.

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